Controlling Your Unemployment Insurance Tax Rate

Unemployment Insurance taxes are a necessary cost of doing business. Play an active role in controlling these costs by understanding the factors that may increase or decrease this tax liability.

DETERMINING EMPLOYER TAX RATES

All new Idaho businesses that have employees begin with the same standard Unemployment Insurance contribution (tax) rate. After a qualifying period of six calendar quarters ending on June 30, a new business that has employees is eligible for a reduced rate during the next calendar year. After that time period employers' tax rates will increase or decrease depending on their individual ***experience rating*** with the Unemployment Insurance program. This rating is calculated by subtracting the employer's accumulated benefit payments from the employer's accumulated tax payments, and then dividing it by the employer's average taxable payroll.

$$\text{EXPERIENCE RATING} = \frac{\text{TAXES PAID - BENEFITS CHARGED}}{\text{AVERAGE TAXABLE PAYROLL}}$$

THE IMPACT ON THE BOTTOM LINE

The experience rating has a large impact on the taxes owed by an employer. Employers have "positive experience" ratings when their total taxes paid exceed the total unemployment benefits charged to that employer's account. An employer has a "negative experience" rating when benefits charged exceed taxes paid. Each year the Idaho Department of Labor (IDOL) makes two lists—one for positive rated employers and one for negative rated employers. These lists rank employers by experience rating and taxable payroll to establish which of the seven positive rates and six deficit tax rates in the Tax Schedule will apply to each. Deficit rated employers will pay taxes at a substantially higher rate than positive rated employers. For example, an employer with the lowest positive rate in schedule II of 0.2 percent would pay only $55.20 for each employee who makes at least the $27,600 wage base. The highest positive rate in schedule II is 1.4 percent, which would equal a tax of $386.40 when multiplied by the $27,600 wage base. The lowest negative rate is 2.6 percent, which, when multiplied by the $27,600 wage base, would equal a tax of $717.60, an additional tax of $331.20 per employee compared to the highest positive rated employer.

SIX TIPS TO ACHIEVE A LOW UNEMPLOYMENT TAX RATE

1. Respond Effectively to Unemployment Claims - Upon separation from employment, a claimant files a claim for UI benefits on the Internet or at a local Job Service office. The claimant completes a separation statement providing personal information and describing the circumstances surrounding the separation. The local Job Service office will then request separation information from the employer and allow five business days for a response. The Job Service office will make an eligibility determination denying or allowing unemployment benefits, based upon the claimant's separation statement and the employer's response. If the employer fails to respond to the Job Service request for separation information, the decision will be based solely on the information the claimant provides. Therefore, it is beneficial to the employer to respond, providing specific information regarding the claimant's separation from employment. If either party disagrees with the eligibility determination, either the claimant or the employer may appeal the decision within 14 days of the determination issue date.

2. Understand Eligibility Requirements - Claimants are only entitled to benefits when they become unemployed through no fault of their own. This includes:

- Being laid off due to lack of work;
- Being discharged for reasons other than misconduct; or
- Quitting for good cause in connection with the employment.

MISCONDUCT - Idaho law provides that a claimant will not be eligible for benefits if the employer discharges the claimant for work-related misconduct. The Idaho Supreme Court has defined misconduct as follows:

- A willful intentional disregard of the employer's interest;

- A deliberate violation of the employer's reasonable rules; or
- A disregard of the standards of behavior which the employer has a right to expect from its employees. Under this third test, the IDOL first considers whether the employee's conduct fell below the standard of behavior expected by the employer and then whether the employer's expectation is objectively reasonable in the particular case.

QUITTING FOR GOOD CAUSE - To be eligible for benefits, a claimant who voluntarily quits must have had good cause connected with the employment. Idaho law places the burden of proof on the claimant. To be connected with employment, a claimant's reason(s) for leaving must arise from the following:

- The working conditions;
- Job tasks; or
- The employment agreement.

The test for good cause is whether a reasonable person would consider the circumstances resulting in a claimant's unemployment to be real, substantial, and compelling. Additionally, the claimant must show that, after exploring alternatives to quitting, the claimant had no viable option other than to quit. Examples include unsafe working conditions, a hostile work environment, or an employer's inability to meet payroll. In all such cases, the claimant must prove that he or she had no choice but to quit once he or she gave the employer a reasonable opportunity to correct the situation.

3. Implement Clear Employee Policies and Keep Records - By implementing and communicating clear employee policies and workplace expectations, employers can help minimize Unemployment Insurance costs. The burden of proving work-related misconduct falls on the employer. Over 60 percent of Idaho claimants who are discharged are ruled eligible for benefits. In many cases, this is due to the inability of the employer to produce sufficient evidence of misconduct. To prove misconduct, an employer needs to maintain clearly documented and communicated employee policies. An employer may also benefit by keeping records of employee orientations, training, evaluations, warnings, and disciplinary actions. For example, if an employer proves that a worker was discharged for violating a documented and communicated drug or alcohol policy that complies with Idaho law, the employee will be ineligible for benefits. However, it is essential that the communication of that drug testing policy to the employee be documented prior to a violation.

4. Report and Pay Taxes Promptly - An employer who is delinquent in filing reports or paying taxes or penalties cannot be eligible for a rate reduction for the next calendar year. In some instances, a delinquent employer's tax rate may increase. A negative rated employer may be allowed to pay unemployment taxes at the standard rate if:

- The employer has paid tax for four years at not less than the standard rate for each year; and
- The employer has paid tax in excess of the benefits charged for four consecutive years ending June 30; and
- The employer has, on or before September 30, filed all reports and paid all taxes and penalties due.

5. Minimize Benefit Charges - Employers can reduce their tax rate by minimizing the benefits charged to their account. At the time a claim for UI benefits is filed, the IDOL determines whether a claimant is monetarily eligible for benefits by applying a formula that is based on the wages received by the claimant in the first four of the last five completed calendar quarters—the base period. Based on this formula, an employer can be charged for benefits up to 15 months after a claimant separates from employment with the employer. Unemployment benefits are charged to the employer who paid the most wages in the claimant's base period unless the claimant voluntarily quit employment with the employer without good cause attributable to the employer, or was determined to have been discharged for misconduct in connection with the employment.

6. Respond to Information Requests Promptly - Providing timely responses to the IDOL's inquiries regarding the employment status and weekly earnings of current and past employees can help control an employer's tax rate. The employer's input assists the IDOL in preventing and detecting improper benefit payments. After detection, improper payments are removed from the account of the experience-rated employer charged on the claim, thereby helping to control an employer's tax rate.

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